EXTENSION OF THE INTERNATIONAL COFFEE AGREEMENT ACT OF 1980

HEARING

BEFORE THE

SUBCOMMITTEE ON TRADE

OF THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

NINETY-EIGHTH CONGRESS

FIRST SESSION

ON

H.R. 3813

TO AMEND THE INTERNATIONAL COFFEE AGREEMENT ACT OF 1980

SEPTEMBER 19, 1983

Serial 98-43

Printed for the use of the Committee on Ways and Means

U.S. GOVERNMENT PRINTING OFFICE

29-401 O WASHINGTON : 1984

H781-20

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EXTENSION OF THE INTERNATIONAL COFFEE AGREEMENT ACT OF 1980

MONDAY, SEPTEMBER 19, 1983

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON TRADE,
Washington, D.C.

The subcommittee met at 2:30 p.m., pursuant to notice, in room B-318, Rayburn House Office Building, Hon. Sam M. Gibbons (chairman of the subcommittee) presiding.

[The press release announcing the hearing and a copy of the bill, H.R. 3813, follow:]

[Press release of Thursday, September 15, 1983]

HON. SAM M. GIBBONS (D., FLA.), CHAIRMAN, SUBCOMMITTEE ON TRADE, COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES, ANNOUNCES A HEARING ON H.R. 3813, A BILL TO AMEND THE INTERNATIONAL COFFEE AGREEMENT ACT OF 1980, ON SEPTEMBER 19,1983

Hon. Sam M. Gibbons (D., Fla.), Chairman of the Subcommittee on Trade of the Committee on Ways and Means, U.S. House of Repreeentatives, today announced that the Subcommittee will hold a public hearing on H.R. 3813, a bill to amend the International Coffee Agreement of 1980. The hearing will be held on Monday, September 19, 1983, beginning at 2:30 p.m., in room B-318 Rayburn House Office Building. Testimony will be received from Administration witnesses only.

H.R. 3813 extends until 1985 the authority of the President to implement U.S. obligations under the International Coffee Agreement [ICA]. This would include authority to restrict coffee imports pursuant to such agreement. The ICA, which was recently ratified by the Senate, is an international agreement among exporting and importing countries designed to promote stable trade in coffee. The recently ratified agreement is the fifth in a series of such agreements, and would extend through 1989. The hearing will cover the terms of the new agreement as well as the need to renew the President's implementing authority.

Any interested person or organization may file a written statement for inclusion in the printed record. Persons submitting a written statement should submit at least six copies by the close of business, Monday, September 19, 1983, to John J. Salmon, Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, room 1102 Longworth House Office Building, Washington, D.C. 20515. If those filing written statements for the record of the printed hearing wish to have their statements distributed to the press and the interested public, they may submit 100 additional copies for this purpose if provided to the full committee office during the course of the public hearing.

I

98TH CONGRESS
1ST SESSION

H. R. 3813

To amend the International Coffee Agreement Act of 1980.

IN THE HOUSE OF REPRESENTATIVES

AUGUST 4, 1983

Mr. GUARINI (for himself and Mr. FRENZEL) introduced the following bill; which was referred to the Committee on Ways and Means

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A BILL

To amend the International Coffee Agreement Act of 1980.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the International Coffee Agreement Act of 1980 (19 U.S.C. 1356k et seq.) is amended—

(1) by amending section 2 by striking out "for such period prior to October 1, 1983 as the agreement remains in effect," and inserting in lieu thereof "before October 1, 1985,"; and

(2) by amending each of sections 2, 3, and 5 by striking out "1976" and inserting in lieu thereof "1983".

Chairman GIBBONS. Good afternoon, ladies and gentlemen.

Today's hearing is on the act to amend the International Coffee Agreement Act of 1980. The act expires at the end of this month, and we are here to take some action.

Our first witness today is Ambassador Michael B. Smith. Then right after him, Deputy Assistant Secretary Denis Lamb. We will take Smith first, Lamb second.

STATEMENT OF AMBASSADOR MICHAEL B. SMITH, DEPUTY UNITED STATES TRADE REPRESENTATIVE, ACCOMPANIED BY DON PHILLIPS

Mr. SMITH. Thank you, Mr. Chairman.

I am here to speak on behalf of the administration in support of H.R. 3813, a bill that allows the United States to implement the International Coffee Agreement [ICA].

On July 27, the Senate gave its advice and consent to ratification of the new International Coffee Agreement. The ICA is due to enter into force on October 1, 1983, for a period of 6 years. The administration is seeking legislation to allow the President to implement the terms of the new treaty.

The proposed bill amends section 2 of the 1980 International Coffee Agreement Act by providing that the effective period during which the President can exercise the authority given him in the act will not terminate on September 30, 1983, but will continue for so long as the bill before you is in effect.

Under article 68, the agreement shall remain in force until September 30, 1989. However, the parties may vote to extend the effective date beyond the 1989 termination date, in which case the language of the proposed bill would permit the act to remain in effect without further amendments or implementing legislation.

The United States has participated in international coffee agreements since 1962 in an effort to stabilize the wide fluctuations in price and to balance the economic interests of producers and consumers. Each successive agreement has come closer to achieving these goals. The basic framework of the 1983 agreement, negotiated by 71 countries, is similar to that of the 1976 agreement. The 1983 agreement contains the following main elements:

Its objective is to stabilize the price of coffee within a range that is acceptable to both consumers and producers.

Its principal economic provision is a system of country export quotas which are decreased when prices are declining and increased when prices are rising in order to seek to keep the price of coffee within an agreed range. In periods of high prices, quotas are suspended altogether in order to encourage maximum exports. The quota system is enforced by the importing members.

It promotes the maintenance of adequate coffee stock levels by making each producing country's export quota partially dependent on its level of stocks. These stocks can be released in a period of high prices to put immediate downward pressure on the market.

In the 1983 agreement, however, the United States sought and achieved several improvements. These include:

An enhanced role for importing countries in the determination of individual country export quotas. Although consumers will still not

be directly involved in negotiations on export quotas, consumers must approve the final quota distribution. Our vote on this issue will help assure that sufficient quantities of the types of coffee demanded by U.S. consumers are included in the final quota distribution.

More effective provisions regarding the declaration of export shortfalls to assure that export quotas remain realistic. Exporters which do not declare in a timely fashion their inability to fulfill their assigned quotas will be penalized by having their quotas reduced in the following year.

Language clarifying the obligation of producers to refrain from multilateral activities outside the scope of the agreement which would affect the price of coffee.

International coffee agreements, Mr. Chairman, have aimed at balancing the economic interests of producers and consumers, and each has been an improvement over the predecessor in this regard. Like the previous agreements, the 1983 agreement is intended to stabilize coffee prices for shortrun periods along long-term market trends. The agreement itself contains no fixed price objective; rather, each year the members of the agreement will establish a price range based on current production and consumption trends, inventory levels, and other factors that influence the market.

The foreign policy implications of our continued participation in the ICA are clear. Coffee is a major export earner in many developing countries; its annual value in world trade is around $12 billion. To the extent that the ICA has helped stabilize prices, it has had a very positive economic impact on these countries. As the largest single importer of coffee, U.S. participation in the ICA is essential to the functioning of the economic provisions of the agreement.

Coffee is a $3 billion industry in the United States. The industry is made up of importers, traders, brokers, roasters, and retailers. The National Coffee Association which represents a large segment of the U.S. industry, has formally announced its support for the ICA. Various members of the industry have cited the need for market stability and believe that the ICA is the best means of achieving this objective.

I would like to reiterate the need to take quick action on this bill. As mentioned earlier, our current legislation expires September 30 of this year. Thus, it is imperative that we have new legislation in place by October 1, 1983, in order to be able to comply with our new treaty obligations. Our failure to do so could disrupt the world coffee market significantly to the detriment of both producers and consumers and of our relations with the coffee-producing countries of the world.

Thank you very much, Mr. Chairman. I would be glad to answer questions after Mr. Lamb is finished.

Chairman GIBBONS. All right.

Mr. Lamb, go right ahead.

STATEMENT OF DENIS LAMB, DEPUTY ASSISTANT SECRETARY FOR TRADE AND COMMERCIAL AFFAIRS, DEPARTMENT OF STATE

Mr. LAMB. If I may, Mr. Chairman, I would simply like to amplify one or two ideas Ambassador Smith included in his testimony. Cooperation on international coffee matters has long been an important element in our foreign relations with producing countries. That cooperation with Latin American producers predates World War II.

Coffee is second in importance only to oil as a commodity export of developing countries. A number of key developing countries depend heavily on their share of the multibillion dollar annual coffee trade. These include the four largest exporting members of the ICA: Brazil, Colombia, Ivory Coast, and Indonesia. El Salvador depends on coffee for nearly 60 percent of its export earnings. Coffee as a share of total export earnings ranges from 20 to 25 percent for Costa Rica, Guatemala, and Honduras.

Relative stability and predictability in the coffee market can have a direct effect on economic and social development in these countries. While we do not view the International Coffee Agreement as the solution to all existing or potential coffee problems, we do believe, however, that its economic provisions are acceptable measures to apply to the problem of cyclical coffee prices which affect both producers and consumers alike.

The Department of State considers the International Coffee Agreement to be an important element in our ongoing foreign policy, and urges the subcommittee to act favorably on the legislation required to implement the agreement.

Thank you, Mr. Chairman.

Chairman GIBBONS. All right. Thank you, gentlemen.

What consumer nations are represented on this panel besides us?

Mr. SMITH. Mr. Chairman, the importing members, if you will, so-called consumer countries, are as follows: Austria, Belgium, Canada, Cyprus, Denmark, Finland, France, Federal Republic of Germany, Greece, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, United Kingdom, United States, Yugoslavia, and European Economic Community as a whole. These countries act for approximately 90 percent of world imports.

Chairman GIBBONS. And on the producer side who have we got?

Mr. SMITH. Angola, Benin, Bolivia, Brazil, Burundi, Cameroon, Central African Republic, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Ethiopia, Gabon, Guatemala, Guinea, Haiti, Honduras, India, Indonesia, Ivory Coast, Kenya, Liberia, Madagascar, Malawi, Mexico, Nicaragua, Nigeria, Panama, Papua New Guinea, Paraguay, Peru, Philippines, Rwanda, Sierra Leone, Sri Lanka, Tanzania, Thailand, Togo, Trinidad and Tobago, Uganda, Venezuela, Zaire, and Zimbabwe, which is virtually all exporters of coffee.

Chairman GIBBONS. All right. I would imagine that Brazil and Colombia are the bigger ones, is that right, or am I wrong?

Mr. SMITH. They are the two biggest, sir.

Chairman GIBBONS. Do you know what percent of the total production they make up?

Mr. SMITH. If I may ask Mr. Phillips of my staff if he has that information, sir.

Mr. PHILLIPS. I don't have a percentage figure here. But out of total world production of about 72 million bags, Brazil accounts for 22 million bags and Colombia accounts for 11 million bags. That is exportable production.

Chairman GIBBONS. Yes.

Mr. PHILLIPS. That is not total crop.

Chairman GIBBONS. Yes; so they represent about 33 million out of 72 million, and the rest of it I guess is spread around. Obviously such countries as Haiti couldn't export a lot. There is not a lot there to export.

What kind of an arrangement do we have that protects us on prices?

Mr. PHILLIPS. Well, the agreement is constructed in such a way that the export quotas are partially determined by the stocks the countries hold. Therefore, they are encouraged to hold high levels of stocks. When prices go up these stocks are released into the market and they tend to dampen prices.

Also, we tend to feel that the existence of the agreement creates a more stable environment for investment in coffee, and therefore tends to avoid the sort of swings in prices and swings in productive capacity that we have often seen in the past.

Chairman GIBBONS. Who controls the release of these excess stocks?

Mr. PHILLIPS. The stocks are essentially controlled by the National Government, since it is not a buffer stock agreement. But nonetheless the availability on the stocks, availability of stocks on the world market would account to dampen prices.

As you know, it is basically an export quota agreement, and the quotas are eliminated as soon as prices rise and producing countries would have every incentive presumably to unload the stocks on the world market, particularly stocks of the magnitude that we have now.

Chairman GIBBONS. You figure that when the quotas come up there are enough other producers out there to supply the market with additional coffee which would then protect the American consumer against excessively high prices?

Mr. PHILLIPS. Well, that of course would depend on production conditions. As it stands right now there are very large stocks out there. They are dispersed among a number of countries so that we feel there would be a release of stocks as prices rose.

Chairman GIBBONS. How long will this enabling legislation be in effect? the bill we have before us? through 1985?

Mr. Pease, do you have questions?

Mr. PEASE. Yes, Mr. Chairman, I do. Thank you very much.

What is the reason for just having received this bill, inasmuch as the current law expires 2 weeks from now?

Mr. SMITH. I am sorry, sir?

Mr. PEASE. Why have we in the committee just received this legislation in light of the fact that the current law expires 2 weeks from now?

Mr. PHILLIPS. Well, the Senate did not ratify the new agreement until May. After May, of course, we were attempting to get the bill introduced. But because of the press of other business in the House we were unable to get it introduced until sometime in August, I believe.

Excuse me. It was ratified—it was not ratified by the Senate until July.

Our understanding of the procedure is that we could not submit the bill until the Senate had ratified the agreement.

Mr. PEASE. Very fine. That is quite satisfactory.

On page 3 of Ambassador Smith's testimony, the statement is made: "Although consumers will still not be directly involved in negotiations on export quotas, consumers must approve the final quota distribution."

What do we mean by "consumers" in that context?

Mr. PHILLIPS. Consuming countries.

Mr. SMITH. Those countries which I listed as importing, or consuming countries.

Mr. PEASE. So they will be acting through their national governments?

Mr. SMITH. That is correct.

Mr. PEASE. These will not be actual consumers of coffee.

Mr. SMITH. That is correct.

Mr. PEASE. Later on in the testimony on the same page you say: The agreement itself contains no fixed price objective. Rather, each year the members of the agreement will establish a price range.

Is that the consumer members or the grower members, or both?

Mr. PHILLIPS. That would be both.

Mr. SMITH. Both, sir.

Mr. PHILLIPS. And, in fact, the price range—if a vote were called, the price range would have to be approved by both two-thirds of the producers and two-thirds of the consumers, which gives us considerable leverage in addressing this question.

Mr. PEASE. Very good. Let me ask another question.

On page 1 of your testimony, I note that this bill provides for no specific termination date of the implementing law and that if the international agreement is extended beyond September 30, 1989, then, there is no necessity for the administration at that time to come back for new implementing legislation.

Do I understand that correctly?

Mr. SMITH. Mr. Pease, if I understand correctly, H.R. 3813 calls for a 2-year provision. We would have to, under that bill, come back for the extension, if I am advised correctly.

Mr. PEASE. Is that at variance, then, with your testimony?

Mr. SMITH. Yes, it does, sir.

I must apologize. I testified this morning in the Senate on a companion bill. But the Senate version of this bill, sir, would be for 6 years, that is, the life of the agreement, which is fixed through September 30, 1989.

Mr. PEASE. Well, then, we have three possibilities, if I understand you correctly. The House bill provides that the implementing legislation would expire in 2 years; is that correct?

Mr. SMITH. That is correct, sir.

Mr. PEASE. The Senate bill provides that the implementing legislation would expire in 6 years?

Mr. SMITH. That is correct.

Mr. PEASE. Is that right?

Mr. SMITH. That is correct, sir.

Mr. PEASE. And in your testimony you suggest that the authority given to the President in the act would not terminate in 6 years but remain in force until the date specified in article 68. If the parties vote to extend the effective date beyond the 1989 termination date, then there would be no necessity to come back to Congress for an extension of this implementing legislation.

Is that correct?

Mr. PHILLIPS. The Senate bill would run as long as we were in the agreement. So, therefore, if we extended, there would be no need to come back for implementing legislation.

Mr. PEASE. So there is no specific termination date in the Senate bill, either; is that correct?

Mr. LAMB. That is correct.

Mr. PEASE. What——

Chairman GIBBONS. "Six-year, but" type of thing.

Mr. PEASE. You have two proposals—one in the Senate, and one in the House. What is the preference of the administration?

Mr. SMITH. The preference of the administration is for a 6-year implementation authority, simply for the reason that we have an international treaty ratified with advice and consent of the Senate. And the purpose would be that the implementation legislation should run concurrently with the term of the treaty.

I would point out that a shorter period could cause some uncertainty in the market and would necessitate us obviously coming back to bring this before your committee at least another time, depending on how many further years—if you are only going 2 years, how many additional years you are willing to go at each try.

Mr. PEASE. I think that makes sense.

Your preference, then, is for a termination date of the statutory authority of December 30, 1989?

Mr. SMITH. Yes, sir.

Mr. PEASE. Without the provision that is apparently in the Senate bill which would provide for an automatic extension if the termination date of the agreement is extended?

Mr. SMITH. Let us consult a minute.

[Pause.]

Mr. SMITH. The simple 6 years would be satisfactory to the administration, sir.

Mr. PEASE. Thank you very much.

Now, to return to the matter I was going to bring up earlier. I noticed in your recitation of grower countries the name of Uganda. You may recall I had some interest—Mr. Lamb may recall—I had some interest in Ugandan coffee exports several years ago.

Has there been any discussion in the negotiation of this agreement or in the implementation of it of the role of human rights in grower countries?

Mr. SMITH. Not to my knowledge, sir.

Mr. PEASE. Mr. Lamb.

Mr. LAMB. Not to my knowledge, either, Mr. Pease.

Mr. PEASE. Is there any particular reason? I guess there is a reason. At the time, the State Department didn't think we ought to do it for Uganda, either.

Mr. LAMB. I remember that very well, Mr. Pease. We have tried to deal with this issue as an economic issue.

Mr. PEASE. Fine.

One last question: Do we have any U.S. domestic growers of coffee at all?

Mr. SMITH. Hawaii, I believe, sir.

Mr. PEASE. Is that a significant amount of coffee?

Mr. SMITH. I have been given to understand that in world terms it is not significant.

Mr. PHILLIPS. It is quite small and it is a very specialized variety of coffee.

Mr. PEASE. If that is the case, there would probably be no need for a domestic content amendment in this bill?

Mr. SMITH. No.

Mr. PEASE. Mr. Chairman, I yield back the balance of my time.

Mr. FRENZEL. Mr. Chairman.

Chairman GIBBONS. Yes, sir, Mr. Frenzel.

Mr. FRENZEL. I want to thank the witnesses—Secretary Lamb, Ambassador Smith—for their testimony. I apologize for my tardiness. And I guess I would make a statement, more than make a query. Maybe it is a question.

Leaving all other consideration out of this, is this coffee agreement on pure economic terms pretty hard to justify for the consumer countries?

Mr. SMITH. Well, sir, I am no lover of commodity agreements.

Mr. FRENZEL. Neither am I. But my name is on that dumb bill.

Chairman GIBBONS. I wasn't going to say anything about that.

Mr. SMITH. I think the coffee agreement is a little different than the normal. This is not, as Mr. Phillips pointed out—not a buffer stock agreement. It has a long tradition and appears to have worked reasonably well as far as commodity agreements go.

Chairman GIBBONS. That isn't saying a lot.

Mr. SMITH. I would agree there, too.

Mr. FRENZEL. What we call damning the faint praise.

Mr. SMITH. It might be. But I think it is viewed, given the number of countries involved and given the role that we play as a consuming country, and given the fact that the price has stayed relatively stable in this area over the last 2 or 3 years—and I am not ascribing any great credit to the agreement per se for it; it may be more psychological than otherwise—I think this is, if you will, a least objectionable sort of situation, or less objectionable.

Mr. FRENZEL. Thank you for revealing your true training in the State Department.

A couple of years ago, a South American growth was stirring a little contamination into the punch bowl. Has that been taken care of to your satisfaction and the State Department's satisfaction?

Mr. SMITH. Yes, sir; you are referring to the Pan Cafe issue. When we were in the process of negotiating the ICA, we said that we wouldn't negotiate the economic provisions until agreement was reached to dissolve Pan Cafe. In the fall of 1980, the producer

group, Pan Cafe, agreed to disband and liquidate all of its contracts in the coffee market over the course of the following year.

In the fall of 1981, the Executive Board of the ICA reported the total dissolution of Pan Cafe.

Mr. FRENZEL. Thank you.

Secretary Lamb, your Department really does the negotiating in this matter, does it not?

Mr. LAMB. We used to do that, Mr. Frenzel. We no longer do. We confided that to our colleagues at USTR. We participate.

Mr. FRENZEL. Is that done in London?

Mr. PHILLIPS. Yes, sir.

Mr. LAMB. The headquarters is in London, yes, sir.

Mr. FRENZEL. Is it the administration's position, then, that—as I suspect from your answer to Mr. Pease—that a satisfactory compromise between the House bill and the Senate bill would be 6 years without automatic extension which reduces the Senate bill some and extends the House bill some?

Mr. SMITH. Yes, sir.

Mr. FRENZEL. I don't know how much trouble it is for you to come dashing up here every year, but it is a real pain in the neck to us.

Mr. SMITH. We had you in mind, sir.

Mr. FRENZEL. Mr. Chairman, I yield the balance of my time.

Chairman GIBBONS. All right. Any further questions?

Do staff have any observations they would like to make?

The question is on the bill, H.R. 3813. Any amendments to it?

Mr. PEASE. Mr. Chairman.

Chairman GIBBONS. Yes, Mr. Pease.

Mr. PEASE. I think we ought to amend it to change line 8, October 1, 1985, to October 1, 1989, if that is a proper change.

Chairman GIBBONS. I don't want to go that far. Let's just pass it out like this. If we go to conference, we will have something to deal with the Senate with. They have to back down on a lot of other things.

Mr. PEASE. Mr. Chairman, I move we make it November 1, 1983, to give you plenty of maneuvering room.

Mr. FRENZEL. Well, Mr. Chairman—the channel isn't that wide. Mr. Chairman, I move that H.R. 3813 be favorably adopted.

Chairman GIBBONS. All right. Those in favor of the Frenzel motion, signify by saying aye.

[Ayes.]

Chairman GIBBONS. Opposed, no.

The ayes have it. The bill is reported.

All right, let's go on to something else quick before I change my mind.

Mr. SMITH. We are leaving, sir.

Mr. FRENZEL. If he ever finds out what is in that bill, we are done.

Chairman GIBBONS. I know what is in it.

[Whereupon, at 3 p.m., the hearing was adjourned.]

[The following was submitted for the record:]

National Coffee Association of U. S. A., Inc.
120 WALL STREET, NEW YORK, N.Y. 10005 • (212) 344-5596 • CABLE: NACOFAS NEW YORK

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GEORGE E. BOECKLIN
President

September 16, 1983

The Honorable
Samuel M. Gibbons, Chairman
Sub-committee on Trade
Committee on Ways and Means
U.S. House of Representatives
Longworth House Office Building
Washington, D.C. 20515

Dear Sir:

The National Coffee Association of U.S.A., Inc. is a trade association of coffee manufacturers and importers whose volume represents ninety percent of the coffee consumed in the United States.

The Board of Directors of the Association favors the participation of the United States in the International Coffee Agreement 1983 and supports passage of the implementing legislation that will be required as of October 1, 1983, as a concomitant to United States ratification of the treaty.

Sincerely,

George E. Boecklin

George E. Boecklin
President

GEB:d

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